

Message Text

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ORIGIN EA-10

INFO OCT-01 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-02 INR-07 INT-05 L-02 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 TAR-01

TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01 AF-06

ARA-06 EUR-12 NEA-09 IO-10 JUSE-00 FTC-01 /134 R

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EA - MR. EDMOND

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FM SECSTATE WASHDC

TO AMEMBASSY MANILA

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TAGS: ETRD, CH, US

SUBJECT: APCAC MEETING - GEBER PARTICIPATION .

REF: A. STATE 72733 B. STATE 72731

C. STATE 72867 D. STATE 72868

FOR ANTHONY GEBER

1. REFTELS A AND B PROVIDE GUIDANCE ON PRC - RELATED
QUESTIONS.

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2. RECENT DEVELOPMENTS ON HONG KONG AND GSP.

DEP ASST SEC GLITMAN MET WITH HONG KONG COMMERCIAL COUNSELOR ALEX HERMANN ON MARCH 25 AND GAVE HIM VERBAL STATEMENT WORKED OUT PRIOR TO YOUR DEPARTURE INFORMING HKG THAT BARRING CONGRESSIONAL OPPOSITION AND ASSUMING RESOLUTION OF PREFERENCES PROBLEMS, WE ANTICIPATE GIVING GSP STATUS TO HONG KONG. CONGEN HONG KONG GAVE SAME STATEMENT TO HKG. IT WAS AGREED THAT CONTENTS OF STATEMENT WOULD NOT BE MADE PUBLIC AT THIS TIME. HERMANN SAID HKG PREPARED TO TAKE NECESSARY STEPS CONCERNING REMOVAL REVERSE PREFERENCES, BUT LAS HOPEFUL HK WOULD BE ABLE TO

RETAIN PREFERENCES WHERE U.S. HAD NO TRADE INTEREST (E.G. CARS WITH LESS THAN 1000 CC ENGINES). GLITMAN TOLD HERMANN NEXT STEP WOULD BE TO HOLD AN INTER-AGENCY MEETING TO DISCUSS REVERSE PREFERENCES AND THAT DEPT WOULD BE BACK IN TOUCH WITH HIM. HERMANN SAID HONG KONG DEPT OF COMMERCE AND INDUSTRY DIRECTOR JORDAN PLANNED TO COME TO U.S. WEEK OF APRIL 21.

U.S. BUSINESSMEN IN HONG KONG HAVE REACTED STRONGLY TO HONG KONG NOT BEING ON A LIST (REFTELS C AND D) AND ISSUE WILL UNDOUBTEDLY BE RAISED IN MANILA. IN ADDITION TO TELLING CONCERNED BUSINESSMEN THAT YOU WILL SEE THAT THEIR VIEWS ARE TRANSMITTED TO APPROPRIATE USG OFFICIALS, WE SUGGEST YOU MAKE FOLLOWING POINTS:

A. THE LIST IN EXECUTIVE ORDER IS AN INITIAL LIST.

B. HONG KONG'S STATUS REMAINS UNDER ACTIVE
--- CONSIDERATION BY USG.

3. GSP AND OPEC.

EB PLANS TO SEND TO ALL POSTS TOMORROW GUIDANCE ON CURRENT STATUS OF ATTEMPTS TO AMEND TRADE ACT PROVISION EXCLUDING OPEC COUNTRIES FROM GSP.

4. MNC DISCUSSIONS IN UN.

FIRST SESSION OF UN COMMISSION ON TRANSNATIONAL CORPORATIONS CONCENTRATED ON FORMULATION OF PRELIMINARY PROGRAM OF WORK FOR ITSELF AND INFORMATION AND RESEARCH LIMITED OFFICIAL USE

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CENTRE (IRC) WHICH HAS BEEN ESTABLISHED TO ASSIST IT IN ITS WORK. BASED ON ECOSOC RESOLUTION 1913 (LVII) FROM WHICH IT DRAWS MANDATE, COMMISSION IDENTIFIED FIVE GENERAL AREAS REQUIRING WORK (LISTED ACCORDING TO GENERAL PRIORITY WHICH COMMISSION HAS ATTACHED TO THEM):

(A) PRELIMINARY WORK WITH PURPOSE OF FORMULATING
--- CODE OF CONDUCT;

(B) ESTABLISHMENT OF COMPREHENSIVE INFORMATION

--- SYSTEM;

(C) RESEARCH ON POLITICAL, ECONOMIC, AND SOCIAL

--- EFFECTS OF OPERATIONS AND PRACTICES OF TNCs;

(D) ORGANIZATION AND CO-ORDINATION, AT REQUEST OF

--- GOVERNMENTS; OF TECHNICAL CO-OPERATION PRO-

--- GRAMMES CONCERNING TNCs;

(E) WORK LEADING TO DEFINITION OF TNC.

ALTHOUGH IT WILL BE DEFINED MORE CAREFULLY DURING THE COMMISSION'S SECOND SESSION EARLY NEXT YEAR, PRELIMINARY PROGRAM OF WORK IS ENCOURAGING IN THAT IT PROVIDES BROAD SCOPE FOR RESEARCH AND ANALYSIS OF INFORMATION ON TNCs, RATHER THAN FOCUSING IMMEDIATELY ON ACTUAL DRAFTING OF CODE OF CONDUCT RELATING TO TNCs. NEVERTHELESS, MANY LDC DELEGATIONS CONTINUE TO DEMAND (A) THAT FORMULATION OF CODE OF CONDUCT RECEIVE HIGHEST PRIORITY IN COMMISSION'S PROGRAM OF WORK; (B) THAT CODE BE MANDATORY AND APPLICABLE ONLY TO TNCs (NOT GOVERNMENTS); AND (C) THAT DEFINITION OF TNC BE NARROWLY DRAWN SO AS TO EXCLUDE STATE-OWNED ENTERPRISES AND VARIOUS LDC-OWNED TNC-TYPE ENTERPRISES. ALTHOUGH FIRM STAND OF U.S., U.K., FRG, ITALY, AND FRANCE IN OPPOSITION TO THESE DEMANDS FORCED POSTPONEMENT OF RESOLUTION OF THESE ISSUES DURING THIS SESSION, LDCs CAN BE EXPECTED TO BRING INCREASED PRESSURE FOR CONCESSIONS IN THESE AREAS ON OUR PART IN FUTURE. THIS WILL REQUIRE INTENSIVE EFFORTS BY OECD GROUP IN FUTURE TO INVOLVE COMMISSION AND IRC IN BROAD, BALANCED RELIMITED OFFICIAL USE

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SEARCH PROGRAM WHICH WILL ADDRESS FAVORABLE AS WELL AS UNFAVORABLE ASPECTS OF TNC ACTIVITIES AND WHICH, IN ADDITION, WILL DEAL WITH IMPACT OF GOVERNMENT LAWS AND POLICIES ON THE ABILITY OF TNCs TO CONTRIBUTE EFFECTIVELY TO ECONOMIC DEVELOPMENT.

SY RUBIN IS NOW U.S. PERMANENT REPRESENTATIVE TO COMMISSION.

5. AGENDA ITEM ON U.S. TAX LEGISLATION:

U.S. CITIZENS ARE GENERALLY TAXED BY THE U.S. ON THEIR WORLDWIDE INCOME, SUBJECT TO A TAX CREDIT FOR FOREIGN TAXES PAID ON FOREIGN SOURCE INCOME. HOWEVER, U.S. CITIZENS WHO ARE WORKING ABROAD MAY EXCLUDE FROM

THEIR INCOME UP TO DOLLARS 20,000 OF EARNED INCOME IF THEY RESIDE OUTSIDE THE U.S. FOR 17 OF 18 MONTHS OR IF THEY ARE BONA FIDE FOREIGN RESIDENTS. IN THE CASE OF INDIVIDUALS WHO HAVE BEEN BONA FIDE FOREIGN RESIDENTS FOR THREE YEARS OR MORE, THE EXCLUSION IS INCREASED TO DOLLARS 25,000 OF EARNED INCOME.

IN 1974, THE HOUSE WAYS AND MEANS COMMITTEE REPORTED A BILL WHICH PHASED-OUT THE SECTION 911 EXCLUSION OVER A THREE YEAR PERIOD. THE COMMITTEE FELT THIS PHASE-OUT WAS JUSTIFIED BECAUSE (1) THE SECTION WAS ANACHRONISTIC, HAVING BEEN ENACTED IN 1943 AS A RESULT OF WARTIME CONDITIONS NO LONGER RELEVANT; (2) THE EXCLUSION PLACED

FOREIGN LOCATED CITIZENS AT A TAX ADVANTAGE OVER CITIZENS LIVING AND WORKING IN THE U.S.; (3) IN MANY INSTANCES THE FOREIGN-LOCATED CITIZEN WAS ALSO EXEMPT FROM FOREIGN TAXES AND THUS PAID NO TAX TO ANY COUNTRY ON THE EXCLUDED INCOME; AND (4) IN SITUATIONS WHERE THE EXCLUDED INCOME WAS SUBJECT TO FOREIGN TAXATION, THOSE FOREIGN TAXES COULD BE USED TO REDUCE U.S. TAX ON OTHER FOREIGN SOURCE TAXABLE INCOME. WHILE THE BILL CONTAINING THIS PHASE-OUT WAS NOT PLACED BEFORE THE HOUSE BEFORE THE 93RD CONGRESS ENDED, IT IS NOT UNLIKELY THAT THE COMMITTEE WILL ADOPT THE SAME VIEW IN THE 94TH CONGRESS.

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FOREIGN TAX CREDIT

IN ORDER TO AVOID DOUBLE TAXATION OF FOREIGN SOURCE INCOME, THE U.S. PERMITS A TAX CREDIT FOR FOREIGN INCOME TAXES LEVIED ON SUCH FOREIGN SOURCE INCOME, THEREBY GIVING PRIMARY TAXING JURISDICTION TO THE FOREIGN COUNTRY OF SOURCE. HOWEVER, IN GENERAL, THE CREDIT MAY NOT EXCEED THAT PORTION OF THE TAXPAYER'S U.S. TAX LIABILITY WHICH THE TAXPAYER'S FOREIGN SOURCE INCOME BEARS TO HIS WORLDWIDE INCOME. THE UNDERLYING CONCEPT IS TO ALLOW A CREDIT ONLY TO THE EXTENT THE FOREIGN SOURCE INCOME IS TAXED BY THE U.S. AND NOT TO ALLOW THE CREDIT TO REDUCE U.S. TAX ON U.S. SOURCE INCOME.

WHILE THE TAX BILL RECENTLY SIGNED BY PRESIDENT FORD SIGNIFICANTLY CHANGED THE MANNER IN WHICH U.S. OIL COMPANIES WILL CALCULATE THEIR ALLOWABLE FOREIGN TAX CREDITS IN THE FUTURE, IT DOES NOT AFFECT THE GENERAL PRINCIPLE OF THAT CREDIT NOR THE MANNER IN WHICH NON-OIL COMPANY TAXPAYERS MAY CALCULATE THE ALLOWABLE CREDIT. KISSINGER

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